

ANNEX 5: Internal Control Templates for budget implementation (ICT) for direct centralized management/grants

Characteristics of DG Home Affairs policy environment:

DG Home Affairs (co) funds activities, mainly through its 3 general programmes "Solidarity and Management of migration flows", "Fundamental rights and justice" and "Security and safeguarding liberties".

The main financial instruments under each general programme are:

a) "*Solidarity and Management of migration flows*": the community actions under European Refugee Fund, European Integration Fund, Return Fund, External Borders fund, Emergencies measures in the event of mass influxes of refugees, European Migration Network;

b) "*Security and safeguarding liberties*": the specific programmes Prevention, preparedness and consequence management of terrorism and Prevention of and fight against crime;

The beneficiaries include public authorities (ministries), NGOs, international organisations (IOM) universities, statistical offices, law enforcement bodies, private bodies, social partners.

The grants, disbursed over a period of 1-3 years, reimburse part of actual eligible costs. Co-financing is required. (5-30%)

Key inherent risks in this environment :

- ✓ Many different types of projects and programmes
- ✓ Large number of different beneficiaries, each operating their own control system, with limited financial capacity.
- ✓ Need to rely on assurance from beneficiaries' control systems.
- ✓ Complexity due to the obligation to have a multi partners structure for projects
- ✓ Operational risks, controls based essentially on declaration from the beneficiary (reporting);
- ✓ Lack of skills in the project management of the applicants
- ✓ Quality of the projects
- ✓ Small size projects, requiring as much attention and workload as big size projects
- ✓ Difficulties in verification of double financing

Key figures:

New grant agreements signed in 2010

- total number: 185
- Total amount: EUR 254,90 million
- average amount: EUR 1,38 million

New action grant agreements signed in 2010

- total number: 184
- total amount: EUR 254,81 million
- average amount: EUR 1,38 million

New operating grant agreements signed in 2010

- total number: 1
- total amount: EUR 0,09 million
- average amount: EUR 0,09 million

New mono-beneficiary action grants in 2010:

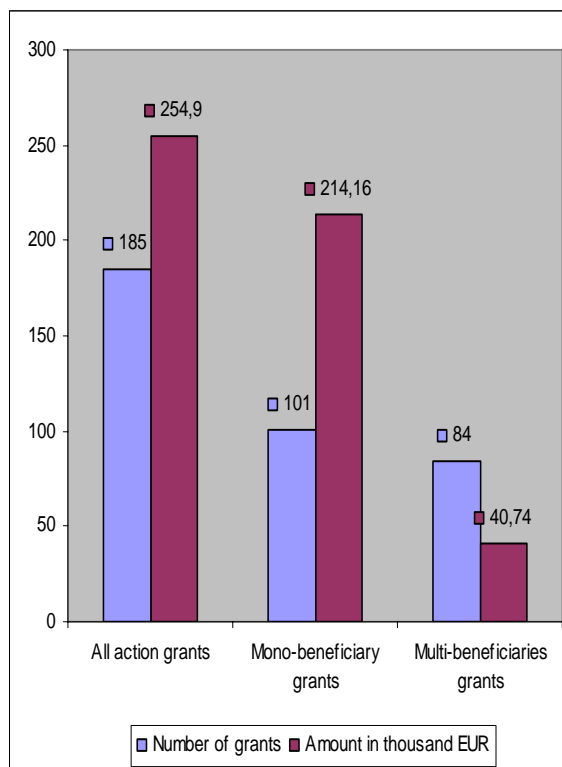
- number: 101
- amount: EUR 214,16 million
- average amount: EUR 2,12 million

New multi beneficiaries action grants in 2010:

- number: 84
- amount: EUR 40,74 million
- average amount: EUR 0,49 million

Open grants (no final payment made) (RAL)

- total number: 829 of which 185 new RAL (2010)
- amount: EUR 145,58 million of which EUR 56,03 million new RAL (2010)



Management and control systems : stages and main actors

Selection process (of beneficiaries, intermediaries, agencies, contractors etc), including **preventive** measures

- ✓ Proposals are selected according to their professional credentials and financial stability and other criteria imposed by the legal basis.
- ✓ Beneficiaries are also checked against a legal entity list and the EWS.
- ✓ Quality of proposal selection enforced in certain cases by the use of external experts (imposed or not by the legal basis).

Preventive and directive measures to improve the quality of financial management and provision of data by beneficiaries and intermediaries

- ✓ Programme website
- ✓ Information meeting with beneficiaries
- ✓ Guidance notes for beneficiaries on applying for projects, making payment claims
- ✓ Use of Commission contractual templates
- ✓ Direct contact with project and financial officers at the Commission to resolve particular queries. (Helpdesk)

<p>Detective and corrective controls: Verification of commitments, pre-financing, interim, payments and key milestones.</p> <p>Monitoring of the project</p>	<p>The financial circuit put in place in DG Home Affairs is, for most transactions model 3 "decentralised circuit with central counterweight", where the operational initiation and verification functions as well as the financial initiation function are executed within each directorate. The ex ante financial verification is performed by the Shared Budget, Control and Ex-post audits Unit (SRD.01). For the first pre-financing payment of grants, model 1 "decentralised without counterweight" is used. In such cases, payments are made without involvement of the central financial unit, and the financial verification is undertaken by the authorising officers.</p> <p>Controls before and during the implementation period of the projects related to:</p> <ul style="list-style-type: none"> ✓ Control provisions provided in the contracts (penalty, recovery clauses, termination) ✓ Review and checks during the contract preparation phase of technical action plan and budget for consistency and plausibility ✓ Desk checks of expenditure based on documents, including progress reports, final technical implementation report ✓ Controls carried out by operational desks on technical implementation report in order to deliver the "conforme aux faits" ✓ Controls carried out by financial desks on financial and legal matters in order to deliver the "bon à payer"
<p>Preventive and corrective controls and audit: Desk reviews, on-the-spot audits carried out either <i>ex-ante</i> or <i>ex-post</i>.</p>	<ul style="list-style-type: none"> ✓ At any time during the implementation period and for 5 years after partial or final payment, the Commission can carry out on the spot controls and/or audits with substantive testing of a sample of transactions ✓ In DG Home Affairs the ex-post controls are made based on a risk assessment. The auditable population is represented by files where final payment was made in year N to N-4. ✓ The draft reports is sent first for comments to operational directorates and then sent to beneficiaries for contradictory procedure. The follow-up is ensured by the operational directorates. Through a quarterly analysis, the audit team ensures that the recommendations (issue of recovery orders or supplementary payments) were implemented. ✓ The ex-post audit activity was partially externalized, via a contract signed with the external contractor Moore Stephens. The implementation of the contract is followed up by the ex-post sector in SRD.01.
<p>Feedback which enables control activities to be optimised</p>	
<p>Verification that processes are working as designed</p>	<ul style="list-style-type: none"> ✓ The risks are assessed at the programme level within the yearly risks exercise. A follow up of critical risks is ensured every 6 months. ✓ For important risks corrective measures are designed to mitigate the risks ✓ An exercise for the assessment of the compliance with internal control
<p>Monitoring of performance of independent bodies, 3rd party auditors, externally contracted auditors</p>	<ul style="list-style-type: none"> ✓ All recommendations provided by Internal Audit, the Commission's Internal Audit Service (IAS) and the European Court of Auditors and EP are followed up systematically. <p>There are no open critical recommendations in 2010.</p>

High level management reporting (e.g. to the Director General and its role in monitoring problem issues)

- ✓ DG prepares Road maps covering the expenditure cycle.
- ✓ The political priorities are transposed into specific objectives in the DG's Annual Management Plan
- ✓ Implementation of the key actions to be carried out and the progress achieved on the relevant targets and indicators appropriate to each action is monitored through the mid-term assessment of the AMP.
- ✓ The progress made during the year is reported in the Annual Activity Report (AAR), and eventually the synthesis report for the Commission as a whole.
- ✓ Monthly budgetary reporting to the DG.
- ✓ Regular management meetings and directorates/units meetings
- ✓ Regular reporting to higher management is ensured
- ✓ Regular heads of financial units network meetings
- ✓ Meetings with the cabinet, bi-annual report on financial matters sent to the Commissioner

ANNEX 5: Internal Control Templates for budget implementation (ICT) for direct centralized management -procurement

Characteristics of DG Home Affairs policy environment:

DG Home Affairs (including Shared Resources Directorate) is dealing with 3 types of procurement contracts:

- Services within its horizontal activities (communication, information, trainings, IT management of Priamos. These contracts are awarded mainly based on framework contracts, belonging to other DGs (DG HR, DG BUDG) or its own framework contracts.
- studies, evaluations, impact assessments for the implementation of its objectives, as well as the creation of websites and Portals on policy areas.
- large scale IT contracts: the development of EURODAC, SIS II and VIS including the Biometric Matching System, service contracts with France and Austria for the hosting of SIS II and VIS, the sTesta Network contract in co-ordination with DG DIGIT, and the Support and Quality Assurance Contract.

Key inherent risks in this environment :

Common risks:

- ✓ Procurement is highly regulated. Detailed rules exist with even more in depth guidance based on experience and the jurisprudence of court judgements.
- ✓ Errors or mismanagement risk costing substantial resources (human and financial), if they are contested, even unsuccessfully, especially if they reach the courts.
- ✓ The risk for over-dependency on contractors is high due to the limited number of economic providers/need for specialist knowledge. (Large scale IT systems, terrorism).
- ✓ In-depth knowledge is necessary to manage procurement effectively (risk of choosing wrong procedures/thresholds, risk of splitting purchases).
- ✓ Technical options are influenced by political considerations

Specific risks for large scale IT systems contracts

- ✓ Procurement is highly regulated. Detailed rules exist with even more in depth guidance based on experience and the jurisprudence of court judgements.
- ✓ Procurement is highly technical. In-depth knowledge of IT and ability to understand technical specifications is therefore necessary to manage procurement effectively (risk of lack of expertise to assess the relevance and cost of deliverables)
- ✓ The risk for over-dependency on contractors is high due to the limited number of economic providers/need for specialist knowledge.
- ✓ Technical options are influenced by political considerations

Key figures:*New contracts signed in 2010*

- total number: 229
- Total amount: EUR 74,26 million
- average amount: EUR 0,32 million

Negotiated procedures in 2010

- total number: 6
- total amount: EUR 46,31 million
- average amount: EUR 7,72 million

Open procedures in 2010

- total number: 6
- total amount: EUR 2,12 million
- average amount: EUR 0,35 million

Restricted procedures in 2010:

- number: 1
- amount: EUR 2,50 million
- average amount: EUR 2,50 million

Contracts not completed (RAL)

- total number: 484, of which 222 new RAL (2010)
- amount: EUR 110,42 million, of which EUR 61,31 million new RAL (2010)

Management and control systems : stages and main actors

<p>Selection process (of beneficiaries, intermediaries, agencies, contractors etc), including preventive measures</p>	<p>The selection process follows the provisions of the Financial Regulation and its Implementing Rules. Within DG Home Affairs, an internal procurement committee (HPC) was set up, chaired by the Director General. The committee is consulted on all procedures above 60.000€</p> <ul style="list-style-type: none"> ✓ Procurement needs are clearly defined and justified from an economic or operational point of view and approved by the Authorising Officer. ✓ An evaluation committee is set up to prepare the selection of the contractors, except for low value contracts. ✓ Declaration of lack of conflict of interest (required for each member of committee but also for the manager) ✓ Every member of staff with significant financial responsibility may be defined as occupying a "sensitive post". Staff should not occupy a sensitive post for more than five years. ✓ An advisory body is consulted with regard to procurement files on a mandatory / voluntary basis (HPC) ✓ Procedures are set up to analyse the risk of over-dependency of contractors. Sound competition among providers together with quality and affordability of services or supplies provided is ensured by periodic reviews (development of prices, business trends, main players, market shares, any barriers to entrants, etc) <p>Following the action plan of the IAS audit report on IT procurement in DG JLS, the IRM, in coordination with C2-CPO has included a section on IT multi-sourcing strategy into the IT Procurement Plan presented to the IT Planning Committee on 6 January 2010. Outsourcing was also discussed at this meeting.</p> <ul style="list-style-type: none"> ✓ In the case of SISII/VIS contracts, a "Contract and procurement office (CPO) ensures the management of contracts and payments. Improved procedures have been put in place for monitoring calls for tender and calls for proposals allowing better control and documentation of the procedures. The CPO prepared a vademecum explaining its role and providing tips on preparation of documents to comply with the financial rules. There is also a training manual for assistants on the main administrative procedures. Declarations of non-conflict of interest are signed whenever it is necessary. The colleagues dealing with sensitive files have valid security clearance. ✓ Physical protection of the offers submitted (locked room and segregation between original and copies)
<p>Communication and information measures to improve the quality of financial management and provision of supporting data by beneficiaries, contractors and intermediaries</p>	<ul style="list-style-type: none"> ✓ Transparency measures: calls for tender are published in the Official Journal and the EUROPA website. Updated information and FAQ are posted regularly on the website ✓ Standard contracts of DG BUDG are used. The specific models developed for the IT contracts have been also approved by SG and DG BUDG. ✓ Adequate communication to unsuccessful tenderers ✓ Computerised accounting system is used to record the contracts and the transactions related to the contracts in ABAC ✓ Technical training in procurement. Ex-ante sector ensure continuous support in procedural matters. ✓ All staff involved in financial management have the responsibility to alert their Director-General, the Secretary-General or OLAF if they suspect any irregular, illegal or criminal activity

<p>Detective and corrective controls: Checks and monitoring during the initial phases of the programme/contract Checks and monitoring during the final/ closure phases of the programme/contract</p>	<p>The financial circuit put in place in DG Home Affairs is, for most transactions model 3 "decentralised circuit with central counterweight", where the operational initiation and verification functions as well as the financial initiation function are executed within each directorate. The ex ante financial verification is performed by the Shared Budget, Control and Ex-post audits Unit (SRD.01). For the first pre-financing payment of grants, model 1 "decentralised without counterweight" is used. In such cases, payments are made without involvement of the central financial unit, and the financial verification is undertaken by the authorising officers.</p> <p>In case of large scale IT contracts, the follow-up requires specialized knowledge and therefore external quality control experts are used. A special circuit has been put in place for these IT projects:</p> <ul style="list-style-type: none"> - A "Contract and procurement office (CPO) ensures the follow up of contracts for both financial and operational aspects. - close and regular monitoring of the Main Development Contractor (MDC) by the Support and Quality Assurance Contractor (SQAC) for development and quality control - COM participates in regular site visits in order to control the progress of works -The SISII/VIS Project Management Board, composed of MDC, SQAC, DG HR, INFISO, DIGIT as well as the member states holding the presidency, ensures monthly reporting of the contractor's activities. The reports are published on the CIRCA site of the Council. - A Global Programme Management Board (GPMB) composed of representatives of the Commission, the contractors and the Member States, has been set up, for ensuring closer cooperation and enhancing the working relationship with the Member States. This group is playing an important work in the follow-up of work on testing. The role of this group has been formalised in the framework of the amendments to the instruments for migration from SIS1+ to SIS II (Council Regulations 541/2010 and 542/2010 of 3 June 2010).
<p>Preventive and corrective controls and audit: Desk reviews, on-the-spot audits carried out either <i>ex-ante</i> or <i>ex-post</i>.</p>	<p>In 2010 the IAS carried out a horizontal audit on IT project initiation in the Commission. The final report does not include any recommendations addressed to DG Home Affairs</p> <p>IAS conducted in 2010 a follow up Audit on IT procurement: all the recommendations have been assessed as implemented by IAS and the audit was closed.</p>
<p>Feedback which enables control activities to be optimised</p>	
<p>Verification that processes are working as designed</p>	<ul style="list-style-type: none"> ✓ Risks are assessed at the programme level within the yearly risks exercise. A follow-up of critical risks for DG HOME is ensured every 6 months. ✓ In case of SISII/VIS, risks are regularly assessed and managed at the programme level and discussed internally and with the Member States. There is regular follow-up of ongoing actions at programme level. Follow-up of critical risks also takes place at DG level every 6 months and major risks are also covered in the yearly risk management exercise.. ✓ An exercise for the assessment of the compliance with internal control standards took place for 2010 in Home Affairs

<p>Monitoring of performance of independent bodies, 3rd party auditors, externally contracted auditors</p>	<ul style="list-style-type: none"> - The Support and Quality Assurance Contractor (SQAC) created a Project Support Office (PSO), fully supervised by the Commission services with a view to reinforcing risk assessment and follow-up of deliverables. - Quality indicators have been set up and monthly reporting on progress is ensured. - national developments of member states are monitored in monthly meetings of SISII and VIS National Project Managers; - the SISII and VIS management Board follows-up progress on the basis of monthly progress reports from Member States, from the Main Development Contractor (MDC) and PSO. - key developments are discussed in SISII Committee which also validates the measures necessary for the development of SISII and VIS - A Global Programme Management Board (GPMB) composed of representatives of the Commission, the contractors and the Member States, has been set up for SIS II, for ensuring closer cooperation and enhancing the working relationship with the Member States. This group is playing an important role in the follow-up of work on testing. The role of this group has been formalised in the framework of the amendments to the instruments for migration from SIS1+ to SIS II. - key developments with the VIS project are followed up by the expert groups "Friends of SIS" and ""Friends of VIS" and reported to SCIFA (Strategic Committee on Immigration, Frontiers and Asylum), CATS and JHA Council. - reporting to European Parliament and Council.
<p>High level management reporting (e.g. to the Director General and its role in monitoring problem issues)</p>	<ul style="list-style-type: none"> ✓ DG prepares Road maps covering the expenditure cycle. ✓ Ad hoc reporting as needed to DG on problem projects or files. ✓ The political priorities of DG Home Affairs are transposed into specific objectives in the DG's Annual Management Plan ✓ Implementation of the key actions to be carried out and the progress achieved on the relevant targets and indicators appropriate to each action are monitored through the mid-term assessment of the AMP. ✓ The progress made during the year is reported in the Annual Activity Report (AAR), and eventually the synthesis report for the Commission as a whole. ✓ Monthly budgetary reporting to the DG. ✓ Regular management meetings and directorates/units meetings ✓ Meetings with the cabinet ✓ Key developments with SIS II and VIS are followed up by the expert groups "Friends of SIS" and "Friends of VIS" and reported to SCIFA, CATS and JHA Council. Progress reports regarding project activities are regularly communicated to Council and European Parliament, as foreseen in the legal basis. Activities are reported to the Council and European Parliament twice a year for the SISII project and once a year for VIS project.

ANNEX 5: Internal Control Template for budget implementation (ICT) – Schengen Facility 1

DG policy environment

Schengen Facility I was created by the 2003 Act of Accession for seven new Member States namely Poland, Slovakia, Lithuania, Latvia, Estonia, Hungary and Slovenia in order to finance actions at the new external borders of the Union for the implementation of the Schengen acquis and external border control.

During the year 2010, the only activities related to Schengen Facility 1 were the issuing of recovery orders for unspent or unduly used funds.

Grant period: Disbursed over a 3-year period (2004-2006) on the basis of yearly financing decisions authorizing the annual payments to each of the beneficiary Member States on the basis of annual amounts mentioned in the Act of Accession (article 35.2) and after transmission by the beneficiary Member State of a yearly indicative schedule.

Grant basis: Co-financing

Number of programmes: one indicative multiannual schedule 2004-2006 and 3 indicative annual schedules (2004, 2005, 2006)

Key inherent risks in this environment

- ✓ Vague legal basis with few control mechanisms (clearance of accounts procedure taking place only at the very end of the period)
- ✓ Changes in management and control system throughout eligibility period of programme implementation.
- ✓ Absorption capacity of the beneficiary countries (administrative capacity, staff turnover, highly technical equipment involving complex procurement procedures for purchase) considering the volume of funds allocated under Schengen Facility I to the seven beneficiary Member States on a very short period of time.

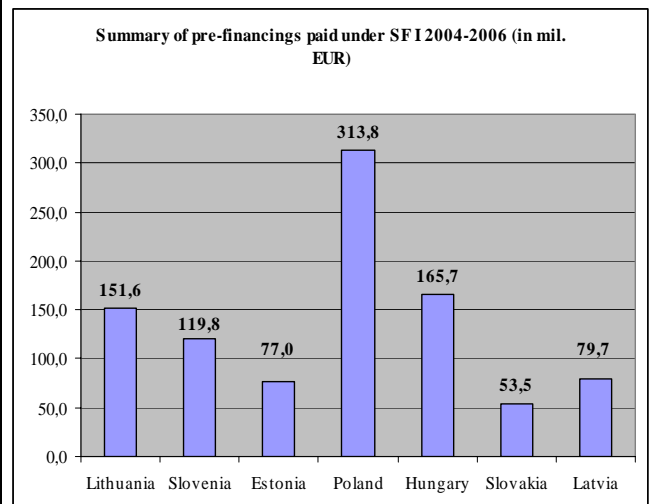
Management mode:

Decentralized management

Key figures:

Summary of pre-financings paid under SF I 2004-2006

Lithuania: 151,6M€
 Slovenia: 119,8M€
 Estonia: 77,0M€
 Poland: 313,8M€
 Hungary: 165,7M€
 Slovakia: 53,5M€
 Latvia: 79,7M€



Elements of the Internal Control System

<p>Preventive measures: Negotiation and approval of programmes, including main elements of management and control systems in Member States</p>	<ul style="list-style-type: none"> • Each annual payment was made following the adoption of a financing decision on the basis of documents received by the Commission for each annual payment including: <ul style="list-style-type: none"> ✓ Designation of the Responsible authority, single contact point and bank account number; ✓ Description of the management, control and verification systems set in place, taking into account standards of good administrative practice set out in Annex I of the decision C(2004)248 on the management and monitoring of the Schengen Facility; ✓ An indicative schedule describing the nature of the investment and a description of its estimated costs and location and the timetable for the implementation of the work. <p>Programmes were assessed by the programming and relevant policy units, checking compliance with the legal framework established for the Schengen Facility, in particular the eligibility of the actions planned under the programmes.</p> <ul style="list-style-type: none"> • The management and control systems descriptions were provided as an annex to the 2004 annual programmes. The Commission ensured that management and control systems had been set up in accordance with the rules on the basis of an assessment of the system description submitted by the MS (cf. section, below). Regarding the management and control System, the former DG JLS checked that it met the standards required by the Financial Regulation and especially that: <ul style="list-style-type: none"> ✓ A satisfactory system architecture (Responsible authority, certifying authority, intermediate bodies and audit authority) was established; ✓ A certification procedure existed (article 14); ✓ A verification system existed (article 15).
<p>Preventive and supervisory measures: Compliance assessment of set-up of management and control systems</p>	<ul style="list-style-type: none"> ✓ The Member States sent a description of the management and control system to the Commission, signed and approved by the three authorities required under the basic act (Responsible authority, certifying authority and verification authority). ✓ The former DG JLS carried out a desk review of all the initial system descriptions and recommended changes where necessary. ✓ Six out of seven systems set up for the management of the Schengen Facility were based on systems used for the management of pre-accession funds which received EDIS accreditation from the Commission. Slovakia set up a system similar to the one used for the management of structural Funds. ✓ The programming and financial units of the former DG JLS carried out a series of monitoring visits in each beneficiary Member States in 2005 to verify the compliance of the management and control systems. At the end of each monitoring visit, a report was issued with a series of recommendations relating to functioning of the management and control systems and communicated to the Member States concerned. All authorities involved in the management and control systems were visited.

<p>Preventive and supervisory measures: Supervisory and central checks and monitoring during the initial phases of the programme</p>	<ul style="list-style-type: none"> ✓ Intermediary reports were sent by the Member States and reviewed by the Commission ✓ General guidance and support on the interpretation and application of the regulatory framework and the preparation of reporting was provided, continuous contacts and support provided through e-mails or phone contacts. ✓ Monitoring visits were carried out by the Commission in each beneficiary Member States in 2006. The aim of these monitoring missions was to carry out a final assessment on the appropriateness of the management and control systems set up for the Schengen Facility and to follow up on the recommendations issued as a result of the 2005 monitoring missions. These monitoring missions also served to establish a first appreciation on the application by the beneficiary Member State of the public procurement rules for the actions financed under the Schengen Facility. Some missions were carried out jointly with members of the Court of Auditors (Hungary, Latvia). They also allowed the Commission to have a clear picture of the state of play of the implementation of the Schengen Facility in each of the beneficiary Member States.
<p>Detective and corrective controls: Primary level verification by responsible authority of correctness of expenditure declared and their compliance with grant conditions; reporting to the Commission</p>	<p>Throughout the implementation period the competent authorities in Member States were required to carry out the following checks:</p> <ul style="list-style-type: none"> ✓ Desk checks of all expenditure based on supporting documents, including progress reports, etc.; ✓ On-the-spot visits to a number of projects selected on a risk based analysis to verify delivery of the project outputs (investment, services) and reality and eligibility of expenditure declared; ✓ Correcting irregular expenditure and ensure recovery of any EC financing unduly paid; ✓ Drawing up of annual intermediary reports on implementation and a final report summarising the implementation of the entire programme, which are scrutinised by the Commission
<p>Detective and corrective controls : Secondary level Audits by verifying Authority</p>	<p>The verifying authority performs system audits and carries out substantive testing of projects to cover a minimum of 10% of the allocated funds on the entire period 2004-2006. It forwards on findings of systems weaknesses and irregular expenditure to the responsible authority and to the certifying authority for correction; it issues an annual control report on the work carried out and conclusions drawn.</p>
<p>Supervisory and corrective controls: Checks carried out by the certifying authority, including reporting of irregularities and recoveries</p>	<p>Each periodic statement of expenditure was checked and certified as correct by the certifying authority.</p> <ul style="list-style-type: none"> ✓ The assurance is based on its own desk checks and, if necessary, on-the-spot-verifications and the information on checks performed by the responsible and audit authorities. All expenditure certified was checked by the certifying authority. ✓ The certifying authority had to verify the recovery of any EC financing found to have been unduly paid. It kept an account of amounts recoverable and amounts recovered.
<p>Supervisory and corrective controls: Audits by the Commission</p>	<ul style="list-style-type: none"> ✓ Preclosure audits were carried out by the Commission in 2007 and 2008 to assess the functioning of the management and control systems put in place by the beneficiary Member States. ✓ A clearance of accounts procedure has been carried out for each beneficiary Member State. A risk-based analysis was followed to determine the sample of financial transactions to be audited by the Commission. A sample was also determined for operational checks which included the most risky projects in terms of eligibility.
<p>Supervisory and corrective controls: Audits by the European Court of Auditors</p>	<p>At any time during the implementation period, and for 5 years after the final closure, the European Court of Auditors can carry out system audits with substantive testing of a sample of transactions, as part of the audit work performed to support the annual opinion issued by the Court on the European budget (Declaration of assurance).</p>

<p>Corrective controls and audit: Final payment and programme closure</p>	<p>The programmes were closed through a clearance of account procedure.</p> <ul style="list-style-type: none"> ✓ The Commission scrutinises all final declarations and if necessary asks for further information or the performance of more audit work, often leading to further corrections. ✓ The Commission audits a sample of eligible expenditure after closure, again resulting in corrections of any irregular expenditure found in the Clearance of Accounts Procedure. ✓ Supporting documents have to be kept available for audit by Commission and European Court of Auditors for 5 years after partial or final closure.
<p>Supervision and monitoring of the Internal Control Systems and audit follow Feedback mechanisms which integrate the control system and enable control activities to be optimized</p>	
<p>Exchange of results of control activities, provision of advice and guidance</p>	<ul style="list-style-type: none"> ✓ In the framework of the final report, the Member States sent to the Commission control reports setting out the results of their audit work and also communicated to the Commission reports on individual system audits, irregularities detected, resulting recoveries and withdrawals, and pending recoveries in the framework of the final report which had to be sent by Member States at the latest the 30 June 2009. ✓ Commission communicated its audit strategy to the Member States in the framework of the clearance of accounts procedure ✓ Regular meetings were also held (by the operational units) with the responsible authority to discuss progress on implementation of the programmes and projects and to identify problems early on in the period.
<p>Verification that processes are working as designed</p>	<ul style="list-style-type: none"> ✓ Risks assessed at the programme level ✓ For important risks corrective measures were taken to mitigate the risks ✓ Internal control standard were complied with.
<p>IAC, IAS, ECA, EP Feedback on adequacy of the system</p>	<ul style="list-style-type: none"> ✓ All recommendations provided by Internal Audit, the Commission's Internal Audit Service (IAS) and the European Court of Auditors and EP are followed up systematically ✓ No open critical risk
<p>Management reporting and its role in identifying problem issues</p>	<ul style="list-style-type: none"> ✓ DG prepares Road maps covering the expenditure cycle. ✓ The political priorities are transposed into specific objectives in the DG's Annual Management Plan ✓ Implementation of the key actions to be carried out and the progress achieved on the relevant targets and indicators appropriate to each action is monitored through the mid-term assessment of the AMP. ✓ The progress made during the year is reported in the Annual Activity Report (AAR), and eventually the synthesis report for the Commission as a whole. ✓ Monthly budgetary reporting to the DG. ✓ Regular management meetings and directorates/units meetings ✓ Regular reporting to higher management is ensured ✓ Regular heads of financial units network meetings ✓ Meetings with the cabinet, bi-annual report on financial matters sent to the Commissioner

ANNEX 5: Internal Control Template for budget implementation (ICT) – Schengen Facility 2

DG policy environment

Schengen Facility II was created by the 2005 Act of Accession for Bulgaria and Romania in order to finance actions at the new external borders of the Union for the implementation of the Schengen acquis and external border control and to help improve cash-flow in national budgets. For the Schengen Facility II, the Director General of DG Budget acts as AOD for the entirety of the allocations available under the temporary cash-flow and Schengen Facility, while the Director General of DG Home Affairs acts as AOD for estimates of amounts receivable, recovery orders, waivers of recovery of amounts receivable, cancellations of amounts receivable, technical and accounting adjustments of amounts receivables.

For the Schengen part of the facility, the Director General of DG HOME bears responsibility for:

- preparation of the technical provisions referred to in Article 32(5) of the Protocol to be adopted by the Commission. These provisions shall set up a framework for the implementation by Bulgaria and Romania and define:

- Criteria for the eligibility of actions at the new external borders of the Union for the implementation of the Schengen acquis and external border control (Art 32(1) of the Protocol) to be financed by the facility,
- Minimum requirements for management and control structures established by Bulgaria and Romania for sound financial management,

- all contacts with Bulgaria and Romania regarding implementation by these Member States

- all controls and audits including on-the-spot checks regarding implementation by Bulgaria and Romania.

Grant period: Disbursed over a 3-year period for a 3-year indicative multiannual programme with 3 indicative annual programmes. Prefinancings are paid monthly to Member States on the basis of annual amounts mentioned in the Act of Accession (Article 32.2).

Cash-Flow facility and Schengen part: The Schengen Facility is made of two parts; the Schengen part under which Bulgaria and Romania have to finance their investments and the cash-flow part which objective is to help improve cash-flow in the national respective budgets. Pursuant to Article 32.3 of the Act of Accession, Member States have to spend at least 50% of the Schengen Facility on the Schengen part to finance actions at the new external borders of the Union for the implementation of the Schengen acquis and external border control.

Grant basis: Co-financing with Member States

Number of programmes: one indicative multiannual programme 2007-2009 and 3 indicative annual programmes (2007, 2008, 2009)

Management mode:

Decentralized management

Key figures:

Summary of pre-financings paid under SF 2 in 2007-2009

Exercise 2007

- Romania: 315,3M€

- Bulgaria: 129,2M€

Exercise 2008

- Romania: 142,6M€

- Bulgaria: 63,9M€

Exercise 2009

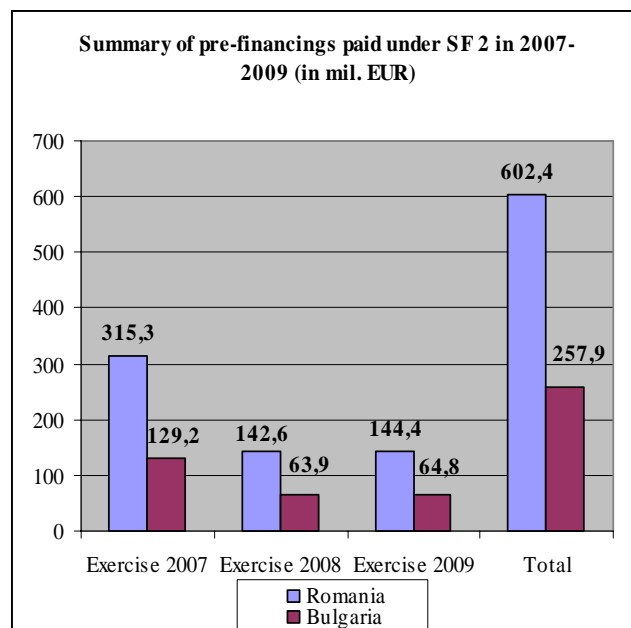
- Romania: 144,4M€

- Bulgaria: 64,8M€

Total

- Romania: 602,4M€

- Bulgaria: 257,9M€



Elements of the Internal Control System	
<p>Preventive measures: Negotiation and approval of programmes, including main elements of management and control systems in Member States</p>	<ul style="list-style-type: none"> ✓ For 2007-2009 the multiannual indicative programmes of Bulgaria and Romania were submitted to the Commission for opinion. The same procedure was applied for annual programmes that had to be submitted by 1 June each year from 2007 to 2009. Programmes were assessed by the programming and relevant policy units, checking compliance with the legal framework established for the Schengen Facility, in particular the eligibility of the actions planned under the programmes. In November 2007 (for Romania) and December 2007 (for Bulgaria), the Commission took favourable note of the final versions of the Indicative Programmes 2007-2009 as well as the annual programme for 2007. ✓ The inclusion in Commission Decision (2007)1417 of the obligation for Member States to provide annual Intermediary Reports, to allow the Commission to regularly monitor the implementation process; ✓ The preparation of a model Intermediary Report, containing detailed information, to be submitted by Member States, on all stages of contracting for all measures and specific projects, exhaustive lists of contracts, exhaustive lists of payments made and certified by the designated authorities, list of corrective management actions adopted by the Member States in the implementation of the Facility, annual audit reports and declarations of assurances from all designated authorities as to the state of implementation of the funds. ✓ Preparation and communication to the Member States of technical fiches, which provide consistent interpretation of eligibility rules and thus mitigate the risk of inappropriate allocation of funds by national authorities. ✓ Close scrutiny over the risk of overlap with other national or Community projects. Particularly in the case of Romania (where a large government contract covers investments in the same areas as the Schengen Facility), additional safeguards were expressly demanded from the national authorities to ensure that any risk of overlap or duplication of investments is eliminated. As such, the Member State has agreed to provide details as to the content of the government contract, to allow the former DG JLS to assess comparatively the Schengen Facility Indicative Programmes, and made institutional arrangements to guarantee that the services mandated to implement and monitor the Schengen Facility are duly separated from those in charge of the respective governmental contract.
<p>Preventive and supervisory measures: Compliance assessment of set-up of management and control systems</p>	<ul style="list-style-type: none"> ✓ The management and control systems descriptions were provided as an annex to the 2007 annual programmes. The Commission ensured that management and control systems had been set up in accordance with the rules on the basis of the assessment of this description. The management and control systems of both Member States were reviewed by the former JLS and received final acceptance. The former DG JLS checked that it met the standards required by the Financial Regulation and especially that: <ul style="list-style-type: none"> ▪ A satisfactory system architecture (Competent authority, certifying authority, intermediate bodies and audit authority) was established ▪ A certification procedure existed (article 17) ▪ A Verification systems existed (article 18) ✓ The assessment by the former DG JLS of the descriptions of the management and control systems for the two countries, and their draft Indicative Programmes, was complemented by a formal consultation of other Commission Departments in July-August 2007. The description of the systems and the draft Programmes, accompanied by the observations and comments of DG JLS, were circulated to DG ELARG, DG REGIO, DG TAXUD, Legal Service, DG BUDG and OLAF. Comments made by these services were incorporated in the formal communication with the Member States and were later on reflected in the final Indicative Programmes submitted by Romania and Bulgaria in November and, respectively, December 2007.

<p>Preventive and supervisory measures: Supervisory and central checks and monitoring during the initial phases of the programme</p>	<p>A continuous monitoring of the management of the Schengen Facility by Bulgaria and Romania was carried in 2010 by DG HOME. Missions on-the-spot took place in each of the two countries in order to assess the state of play of the implementation of the instrument and the functioning of the Management and Control Systems. A mission was carried out in June 2010 in Bulgaria and in autumn 2010 in Romania to check the state of play of the implementation of the contracts to be financed under the Schengen Facility. The outcome of the visits was positive, with a mobilization of all bodies concerned to reach the 50% objective and a proper functioning of the Management Control Systems of both Member States.</p>
<p>Detective and corrective controls: Primary level verification by responsible authority of correctness of expenditure declared and their compliance with grant conditions; reporting to the Commission</p>	<p>Throughout the implementation period the competent authorities in Member States were required to carry out the following checks:</p> <ul style="list-style-type: none"> ✓ Desk checks of all expenditure based on supporting documents, including progress reports, etc.; ✓ On-the-spot visits to a number of projects selected on a risk based analysis to verify delivery of the project outputs (investment, services) and reality and eligibility of expenditure declared; ✓ Correcting irregular expenditure and ensure recovery of any EC financing unduly paid; ✓ Drawing up of annual intermediary reports on implementation and a final report summarising the implementation of the entire programme, which are scrutinised by the Commission
<p>Detective and corrective controls : Secondary level Audits by verifying Authority</p>	<p>The verifying authority performs system audits and carries out substantive testing of projects to cover a minimum of 10% of the allocated funds on the entire period 2007-2009. It forwards on findings of systems weaknesses and irregular expenditure to the responsible authority and to the certifying authority for correction; it issues an annual control report on the work carried out and conclusions drawn.</p>
<p>Supervisory and corrective controls: Checks carried out by the certifying authority, including reporting of irregularities and recoveries</p>	<p>Each periodic statement of expenditure was checked and certified as correct by the certifying authority.</p> <ul style="list-style-type: none"> ✓ The assurance is based on its own desk checks and, if necessary, on-the-spot-verifications and the information on checks performed by the responsible and audit authorities. All expenditure certified was checked by the certifying authority. ✓ The certifying authority had to verify the recovery of any EC financing found to have been unduly paid. It kept an account of amounts recoverable and amounts recovered.
<p>Supervisory and corrective controls: Audits by the Commission</p>	<p>Throughout the implementation period, DG Home Affairs will carry out system audits to confirm the effective functioning of the systems and substantive testing as part of the clearance of accounts procedure to establish the amount of expenditure recognised as chargeable to the budget. In cases where weaknesses or failures to apply legal bases requirements are noted, the Commission will require the Member States to correct any system weaknesses and irregular expenditure found. The Commission will establish whether system weaknesses exist and the amount eligible as part of the clearance of accounts procedure.</p> <p>Preclosure audit missions were carried out in 2010 in order to check the functioning of the management and control system and to verify the application of public procurement procedures.</p>
<p>Supervisory and corrective controls: Audits by the European Court of Auditors</p>	<p>At any time during the implementation period, and for 5 years after the final closure, the European Court of Auditors can carry out system audits with substantive testing of a sample of transactions, as part of the audit work performed to support the annual opinion issued by the Court on the European budget (Declaration of assurance).</p>

<p>Corrective controls and audit: Final payment and programme closure</p>	<p>The programmes will be closed through a clearance of account procedure.</p> <ul style="list-style-type: none"> ✓ The Commission will scrutinise all final declarations and if necessary ask for further information or the performance of more audit work, often leading to further corrections. ✓ The Commission will audit a sample of eligible expenditure after closure, again resulting in corrections of any irregular expenditure found in the Clearance of Accounts Procedure. ✓ Supporting documents will have to be kept available for audit by Commission and European Court of Auditors for 5 years after partial or final closure.
<p>Supervision and monitoring of the Internal Control Systems and audit follow Feedback mechanisms which integrate the control system and enable control activities to be optimized</p>	
<p>Exchange of results of control activities, provision of advice and guidance</p>	<ul style="list-style-type: none"> ✓ In the framework of the final report which will have to be sent by Member States at the latest the 30 June 2011, Bulgaria and Romania will send to the Commission control reports setting out the results of their audit work and also communicate to it reports on individual system audits, irregularities detected, resulting recoveries and withdrawals, and pending recoveries. ✓ Commission will communicate its audit strategy to the Member States in the framework of the clearance of accounts procedure. ✓ Annual meetings are held (by the operational units of Dg Home Affairs) with the responsible authority to discuss progress on implementation of the programmes and projects and to identify problems early on in the period.
<p>Verification that processes are working as designed</p>	<ul style="list-style-type: none"> ✓ Risks assessed at the programme level ✓ For important risks corrective measures were taken to mitigate the risks ✓ Internal control standard were complied with.
<p>IAC, IAS, ECA, EP Feedback on adequacy of the system</p>	<ul style="list-style-type: none"> ✓ All recommendations provided by Internal Audit, the Commission's Internal Audit Service (IAS) and the European Court of Auditors and EP are followed up systematically ✓ No open critical risk
<p>Management reporting and its role in identifying problem issues</p>	<ul style="list-style-type: none"> ✓ DG prepares Road maps covering the expenditure cycle. ✓ The political priorities are transposed into specific objectives in the DG's Annual Management Plan ✓ Implementation of the key actions to be carried out and the progress achieved on the relevant targets and indicators appropriate to each action is monitored through the mid-term assessment of the AMP. ✓ The progress made during the year is reported in the Annual Activity Report (AAR), and eventually the synthesis report for the Commission as a whole. ✓ Monthly budgetary reporting to the DG. ✓ Regular management meetings and directorates/units meetings ✓ Regular reporting to higher management is ensured ✓ Regular heads of financial units network meetings ✓ Meetings with the cabinet, bi-annual report on financial matters sent to the Commissioner

ANNEX 5: Internal Control Template for budget implementation (ICT) – shared management

DG policy environment

The implementation of the four Funds under the general programme "Solidarity and management of migration flows" (European Integration Fund - IF, External Border Fund - EBF, European Refugee Fund - ERF and Return Fund - RF) and of the European Refugee Fund (I&II) is a joint responsibility between the Commission and the Member States. The implementation of the policy vis-à-vis the final beneficiaries is delegated to the Member States, while the Commission has the responsibility for the overall legal framework and has final responsibility for the implementation of the EC Budget. It supervises the activities of the Member States.

Beneficiaries vary for each Fund and include public authorities (national, regional and/or local authorities, agencies with executing responsibilities), NGOs, international organisations, migrant organisations, civil society and private companies, all projects being implemented on a non-profit basis.

Grant Period: Disbursed over a 30 months period for each annual programme

Grant basis: Co-financing with Member States with a co-financing percentage between 50-75%.

Key inherent risks in this environment

- The Commission is dependent from the outcome of Member States' implementation of the programmes;
- Many different types of projects and programmes;
- Detailed rules and regulations to meet Community objectives;
- The Commission is not in a position to control 100% of the declared expenditure;
- Lack of suitable indicators assisting the management and helping to gauge improvements over time.

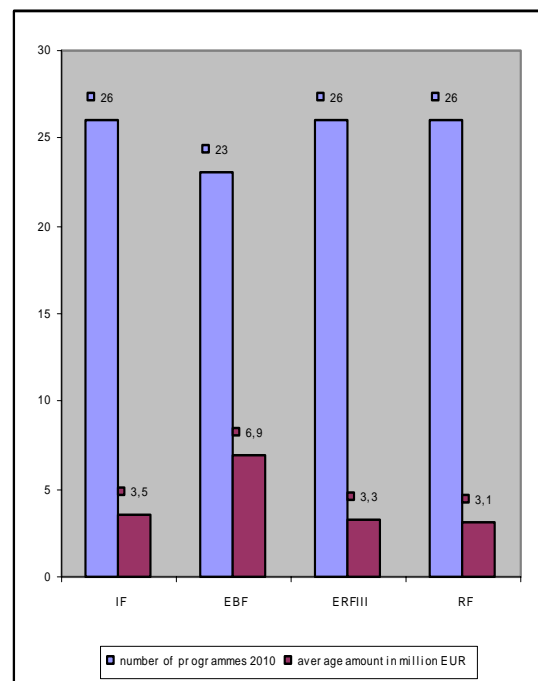
Key figures:

Number of annual programmes approved as 31/12/2010

	ERF II	IF	EBF	ERF III	RF
2005	24				
2006	24				
2007	26	26	23		
2008		25	18	25	10
2009		27	23	26	23
2010		26	23	26	26

Average amounts, M€(commitments)

	ERF II	IF	EBF	ERF III	RF
2005	1.8				
2006	1.9				
2007	2.4	2.3	6.9		
2008		2.8	7.3	2.6	2.1
2009		3.5	7.2	3.3	2.5
2010		3.5	6.9	3.3	3.1



Elements of the Internal Control System

<p>Preventive measures: Negotiation and approval of programmes.</p>	<ul style="list-style-type: none"> ✓ Annual programmes are examined on the basis of checklists. ✓ Actions proposed for co-financing under the Programmes are assessed by checking compliance with the scope and purpose of the Fund, the coherence with the multiannual programmes and the Community strategic guidelines and, where appropriate, the rules on eligibility of expenditure and target groups ✓ The assessment of the annual programmes covers the implementation methods and the selection process, ensuring equal treatment under calls for proposals and the application of the principle of best value for money in procurement procedures.
<p>Preventive and supervisory measures: Compliance assessment of set-up of management and control systems</p>	<ul style="list-style-type: none"> ✓ For the 2007/8-2013 period the Member States sent a description of the management and control systems (MCS) to the Commission, signed and approved by the three authorities required under the basic act (responsible authority, certifying authority and audit authority). ✓ The former DG JLS carried out a desk review of all the initial system descriptions and recommended changes where necessary. Missions were undertaken to some MS to check the description. The approval of the programmes was launched only when the analysis of the final version of the description resulted in an unqualified opinion or a qualified opinion with limitations (i.e. qualifications not amounting to any doubts about the compliance of the system with the basic act). ✓ In the course of 2010, new descriptions (Romania, Bulgaria, Switzerland, Norway, Iceland for the EBF) have been received. The analysis needs to complete before the approval of the programmes.
<p>Preventive and supervisory measures: Supervisory and central checks and monitoring during the initial phases of the programme</p>	<ul style="list-style-type: none"> ✓ Regular contacts and/or meetings with Member State' responsible authorities ✓ Review draft progress reports on the implementation of annual programmes submitted in the context of the request for second prefinancing ✓ Review draft final reports on the implementation of annual programmes and the request for closure to establish the amount chargeable to the Fund ✓ The closure of the first annual programmes in the area of solidarity and migration funds under the 2007-2013 financial framework have started at the end of 2010 with the reception of the first final reports from the Member States. So far they only concern two of the four Funds (EBF and EIF). The closures of the 2008 annual programmes will however concern the four Funds, and will start in the first quarter of 2011. ✓ Review draft annual summaries <p>In 2010, all Member States sent in annual summaries for the 2009 programmes. The results were considerably better than the previous year in the information provided and uniformity of presentation. No irregularities or serious risks were reported and overall there was an enhanced audit coverage by most Member States. After an internal audit further improvements were made to the instructions (eg presentation of data and possibility of using the Cohesion fund format) and were sent to the Member States in December 2010.</p>
<p>Preventive and supervisory measures: Supervisory and central checks and monitoring during the initial phases of the programme</p>	<ul style="list-style-type: none"> ✓ General guidance and support on the interpretation and application of the regulatory framework and the preparation of reporting is provided to Member States in the framework of the SOLID Committee and through bilateral contacts

<p>Detective and corrective controls: Primary level verification by responsible authority of correctness of expenditure declared and their compliance with grant conditions; reporting to the Commission</p>	<p>Throughout the implementation period the responsible authorities in Member States are required to carry out the following checks:</p> <ul style="list-style-type: none"> ✓ Desk checks of all expenditure based on supporting documents, including progress reports by final beneficiaries, etc.; ✓ On-the-spot visits to a number of projects selected on a risk based analysis to verify delivery of the project outputs (investment, services) and reality and eligibility of expenditure declared; ✓ Correcting irregular expenditure and recovery of EU funds as appropriate; ✓ Drawing up of progress and final reports on the implementation of the annual programmes summarising the implementation of the entire programme, which are scrutinised by the Commission ✓ For qualified and adverse opinions from the Audit authority on the functioning of the management and control system, the responsible authority shall ensure that an adequate action plan is implemented by the responsible authority to restore effectively the functioning of the system.
<p>Detective and corrective controls : Secondary level verification by certifying authority, including reporting of irregularities and recoveries</p>	<p>Each statement of expenditure is checked and certified as correct by the certifying authority.</p> <ul style="list-style-type: none"> ✓ The assurance is based on its own desk checks and, if necessary, on-the-spot-verifications and the information on checks performed by the responsible and audit authorities. ✓ The certifying authority shall verify the recovery of any EC financing found to have been unduly paid. It shall keep an account of amounts recoverable and amounts recovered.
<p>Supervisory and corrective controls: Audits by the Audit Authority</p>	<ul style="list-style-type: none"> ✓ The Audit Authority performs system audits and carries out substantive testing of projects to cover 10% of expenditure by programme closure; it passes on findings of systems weaknesses and irregular expenditure found to the Responsible Authority and to the certifying authority for correction; it issues an annual control report on the work carried out and conclusions drawn. ✓ The audit strategies of each Audit Authority are assessed by DG Home Affairs.
<p>Supervisory and corrective controls: Audits by the Commission</p>	<p>Throughout the implementation period, DG Home Affairs will carry out system audits with substantive testing to confirm the effective functioning of the systems. In cases where weaknesses or failures to apply legal bases requirements are noted, the Commission will require the Member States to correct any system weaknesses and irregular expenditure found. The Commission will ensure that corrective measures concerning key elements of the systems have been taken into account before confirming that further payments can be made.</p>
<p>Supervisory and corrective controls: Audits by the European Court of Auditors</p>	<p>At any time during the implementation period, and for 5 years after the final closure, the European Court of Auditors can carry out system audits with substantive testing of a sample of transactions, as part of the audit work performed to support the annual opinion issued by the Court on the European budget (Déclaration d'Assurance).</p>

<p>Corrective controls and audit: Final payment and programme closure</p>	<ul style="list-style-type: none"> ✓ At the end of the programme period, the Audit Authority reviews the audit work done and gives its opinion on the functioning of the management and control systems and the expenditure declared from the programme as a whole. ✓ At the end of the programme period, the Certifying authority in the Member State reviews the audit work done and gives its opinion on the expenditure declared from the programme as a whole. ✓ The Commission scrutinises all final declarations and if necessary asks for further information or the performance of more audit work, often leading to further corrections. In the course of 2010 procedures have been agreed within the DG to examine the closure documents. As part of this process, the audit work done and reported by Member States is being scrutinised. The 2007 EIF and EBF final reports include the audit authority opinions. In those reports where there are differences of opinions between the authorities or the audit opinion is not unqualified, the Commission has requested further clarifications and will formulate its opinion taking into account the information sent in response. ✓ The Commission may audit a sample of programmes after closure, again resulting in corrections of any irregular expenditure found. ✓ Supporting documents have to be kept accessible for audit by Commission and European Court of Auditors for 5 years after partial or final closure.
<p>Supervision and monitoring of the Internal Control Systems and audit follow. Feed back mechanisms which integrate the control system and enable control activities to be optimized</p>	
<p>Exchange of results of control activities, provision of advice and guidance</p>	<ul style="list-style-type: none"> ✓ DG Home Affairs follows a "single-audit" approach which involves integration of the control activities of the Commission and the Member States in order to optimise their effect and the level of assurance they provide. ✓ The Member States send to the Commission annual summaries setting out the results of their audit work and certification. They also communicate reports on individual system audits, irregularities detected, resulting recoveries and withdrawals, and pending recoveries. ✓ Commission sends its own audit strategy and the results of its own audits to the Member States and ensures that recommendations to correct systems weaknesses are implemented. <p>In 2010 the Commission finalised the examination of the draft audit strategies from Member States and started the examination of the first audit reports received from the Audit Authority. By the first quarter of 2011 comments were transmitted and/or exchange of views organised at bilateral level.</p> <ul style="list-style-type: none"> ✓ The activities of Member States' audit services are guided by the use of standardised reports/templates annexed to the legal basis and common international audit practices. The Member States and Commission discuss the findings reported in the Member States' annual control reports and audit reports of the Commission, which also monitor implementation of action plans with specific Member States as required. ✓ The Commission provides advice and formal written guidance on control and audit issues on an ongoing basis.
<p>Verification that processes are working as designed</p>	<ul style="list-style-type: none"> ✓ Risks assessed at the programme level ✓ For important risks corrective measures were taken to mitigate the risks ✓ Internal control standard were complied with.

IAC, IAS, ECA, EP Feedback on adequacy of the system	<ul style="list-style-type: none"> ✓ All recommendations provided by Internal Audit, the Commission's Internal Audit Service (IAS) and the European Court of Auditors and EP are followed up systematically ✓ No open critical recommendations
Management reporting and its role in identifying problem issues	<ul style="list-style-type: none"> ✓ Road map completed ✓ The political priorities are transposed into specific objectives in the Management Plan ✓ regular reporting to higher management ✓ regular meetings at the directorate level ✓ regular meetings at the unit level ✓ Meetings with the cabinet. <p>Given the routine nature of the files (payments) reporting to higher management takes place by way of general information notes and the AOS reports, while the director is informed regularly.</p>